

Message Text

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ACTION NEA-10

INFO OCT-01 AF-10 ARA-10 EA-10 EUR-12 ISO-00 SOE-02
AID-05 CEA-01 CIAE-00 COME-00 DODE-00 EB-08
DOE-11 H-01 INR-10 INT-05 L-03 NSAE-00 NSC-05
OMB-01 PM-05 USIA-06 OES-07 SP-02 SS-15 STR-07
TRSE-00 ACDA-12 EPA-01 FRB-03 XMB-02 OPIC-03
LAB-04 SIL-01 IO-13 NEAE-00 /186 W
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P R 091159Z MAR 78
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TO SECSTATE WASHDC PRIORITY 7344
INFO USINT BAGHDAD
AMEMBASSY CARACAS
AMEMBASSY DHAHRAN
AMEMBASSY DOHA
USMISSION GENEVA
AMEMBASSY JAKARTA
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LAGOS
AMEMBASSY LONDON
AMEMBASSY TRIPOLI
AMEMBASSY VIENNA

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E.O. 11652: N/A
TAGS: ENRG EFIN IR
SUBJ: IRANIAN VIEWS ON OIL PRICING AND US DOLLAR

REF: TEHRAN 0373 (NOTAL)

1. SUMMARY: THE SHAH, IN A MARCH 5 PRESS INTERVIEW, SAID IRAN
WOULD RESPECT ITS COMMITMENT TO A 1978 OIL PRICE FREEZE BUT LATER,
IN THE CONTEXT OF SAYING IRAN HAD EXPERIENCED A LOSS OF PURCHASING
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POWER OF ABOUT 20 PERCENT DUE TO THE DOLLAR'S DECLINE, SAID IT WAS
"VERY LIKELY" THAT OPEC WOULD ADOPT THE SDR OR SOME
MARKET BASKET OF CURRENCIES FOR OIL PRICING. APART
FROM THIS, OIL AND ECONOMICS MINISTER YEGANEH'S
REPORTED COMMENTS IN WASHINGTON CONCERNING THE DOLLAR
AND OIL PRICING IS THE ONLY PUBLIC STATEMENT BY A
SENIOR GOI OFFICIAL ON THESE RELATED SUBJECTS, A CLEAR CONTRAST TO

THE BARRAGE OF UTTERANCES FROM THE GULF. IRAN IS WILLING TO ATTEND AN OPEC SPECIAL CONSULTATIVE MEETING LATE MARCH/EARLY APRIL. BEST INFO IS THAT WHILE IRAN DOUBTS FAVORABLE ACCEPTANCE OF VENEZUELAN PROPOSAL FOR PRICE INCREASE AND DIVIDEND TO LDC'S, IT HAS NOT FORECLOSED POSSIBILITY OF NEW PRICE DENOMINATION. SENIOR CENTRAL BANK OFFICIALS AND YEGANEH'S OIL ADVISOR CONFIRM, HOWEVER, THAT NO STUDIES OR PROPOSALS HAVE BEEN UNDERTAKEN OR FORMULATED WITHIN GOI ON NEW PRICE MECHANISM. MEANWHILE, IRAN, AS REPORTED REFTEL, CONTINUES TO RESIST REVALUATION OF EXCHANGE RATE ALTHOUGH EXPERT IRANIAN OPINION IS THAT DOLLAR UNLIKELY TO IMPROVE VIS-A-VIS STRONGEST CURRENCIES IN 1978. END SUMMARY.

2. IN AN INTERVIEW MARCH 5 WITH A WASHINGTON POST JOURNALIST, THE SHAH REAFFIRMED HIS INTENTION TO SUPPORT THE FREEZE IN OIL PRICES THROUGHOUT 1978. HOWEVER, IN RESPONSE TO FOLLOW-UP QUESTIONS, THE SHAH SAID THAT IRAN HAD LOST ABOUT 20 PERCENT OF ITS PURCHASING POWER BECAUSE OF THE DEVALUATION OF THE DOLLAR, AND THAT IT WAS "VERY LIKELY" THAT OPEC WOULD ADOPT THE SDR OR SOME MARKET BASKET OF CURRENCIES TO DENOMINATE OIL PRICES. PRIOR TO THE INTERVIEW IN WHICH THE SHAH SPOKE OF THE LIKELIHOOD OF OPEC ADOPTING A NEW PRICING MECHANISM FOR OIL, EMBOFFS HAD BEEN TALKING TO A NUMBER OF FAIRLY SENIOR GOI OFFICIALS ON THIS SUBJECT. OFFICIALS OF NIOC AND MIN OF ECONOMIC AFFAIRS AND FINANCE (MEAF) DEMONSTRATED CONSIDERABLE INTEREST AND AT LEAST QUALIFIED SUPPORT FOR DENOMINATING OIL PRICES IN SDR'S OR A MARKET BASKET OF CURRENCIES. HOWEVER, WE GATHER THAT THE GOI HAS NOT DEVELOPED ANY SPECIFIC PROPOSAL OR POSITION. LIMITED OFFICIAL USE

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3. AN ADVISOR TO IRAN'S OPEC AND MEAF MIN, YEGANEH CONFIRMED THAT IRAN HAD RESPONDED TO AN INVITATION TO A SPECIAL OPEC CONSULTATIVE MEETING AND WAS WILLING TO ATTEND IN EITHER LATE MARCH OR EARLY APRIL. THIS SOURCE PREDICTED THAT THE VENEZUELAN PROPOSAL TO INCREASE OIL PRICES AND USE THE PROCEEDS TO PROVIDE DEBT RELIEF TO THE LDC'S WOULD BE DISCUSSED, ALONG WITH THE ISSUE OF OIL PRICING .

THIS SOURCE ALSO PREDICTED THAT THE VENEZUELAN PROPOSAL WOULD FIND FEW SUPPORTERS AND WOULD NOT BE SERIOUSLY CONSIDERED. HOWEVER, HE WAS MORE GUARDED IN ANTICIPATING THE OUTCOME OF DELIBERATIONS ON THE APPROPRIATE MECHANISM FOR OIL PRICING. HE PERSONALLY FINDS CONSIDERABLE MERIT IN THE PROPOSALS TO INSULATE OPEC INCOME FROM THE EFFECTS OF DOLLAR DEVALUATIONS. HE IDENTIFIED THE SELECTION OF A BASE PERIOD AS ONE PROBLEM WHICH WOULD DEMAND A COMPROMISE. SOME OPEC MEMBERS, HE PREDICTED, WOULD WANT TO GO BACK ABOUT A YEAR FOR THE BASE SO AS TO OBTAIN A SUBSTANTIAL INCREASE IN CURRENT PRICE LEVELS, BUT OTHERS (PRESUMABLY INCLUDING IRAN) WOULD ADVOCATE DECEMBER 1977 AS A MORE APPROPRIATE BASE SINCE OPEC AT THE CARACAS MEETING HAD, IN EFFECT, ACCEPTED THE CURRENT LEVEL OF PRICES DENOMINATED IN DECEMBER 1977 DOLLARS.

4.EMBOFF DISCUSSED MARCH 8 SEPARATELY WITH CENTRAL BANK VICE GOVERNORS SHIRAZI (INTERNATIONAL) AND HOMAYOUN (RESEARCH) IRAN'S THINKING CONCERNING OIL PRICE DENOMINATION, FOREIGN EXCHANGE RATES AND THE US DOLLAR. APART FROM MINISTER YEGANEH'S CONCERNS OVER THE DOLLAR EXPRESSED IN WASHINGTON DURING THE END-FEBRUARY US-JOINT COMMISSION MEETING, NEITHER OFFICIAL (NNOR EMB) KNEW OF ANY GOI EXPRESSIONS CONCERNING THE DOLLAR OR ITS USE BY OPEC IN PRICING. THEY SAID THEY WOULD BE INVOLVED IN ANY GOI STUDIES/PROPOSALS CONCERNING THE IMPLICATIONS OF A DEPARTURE FROM DOLLAR-DENOMINATED PRICING AND KNEW OF NONE SINCE 1976 WHEN IT HAD BEEN ON THE OPEC AGENDA. HOMAYOUN PERSONALLY FAVORS THE ADOPTION OF A BASKET OF CURRENCIES, IF NOT THE SDR, AND BELIEVES THAT THE MOUNTING PRESSURE BY OPEC MEMBERS FOR RELIEF FROM THE LOSS OF PURCHASING POWER WILL LEAD TO ULTIMATE, IF NOT IN 1978, ABANDONING OF THE DOLLAR.
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5. SHIRAZI, AS REPORTED REFTEL, AND HOMAYOUN, SAID IRAN'S FOREIGN EXCHANGE POLICY, WHICH IN DECEMBER ABANDONED THE ADJUSTMENT FORMULA (SEE REFTEL) IS UNCHANGED. ESSENTIALLY, THE CENTRAL BANK IS NOW THE SPECULATOR IN PLACE OF THE COMMERCIAL BANKS, WHO PREVIOUSLY COULD TRACK THE DOLLAR/SDR MOVEMENT AND PREDICT RIAL/DOLLAR ADJUSTMENT. ALTHOUGH THE RIAL IS NOW MORE THAN 2 PERCENT OUTSIDE THE 4.5 PERCENT TUNNEL, THE RIAL HAS NOT BEEN ADJUSTED SINCE THE MINIREVALUATION OF DEC 10

(77 TEHRAN 10899) AND, BY INTERPRETATION OF THEIR COMMENTS, IRAN
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WILL CONTINUE ITS "WAIT AND SEE" POLICY. RUMORS OF A SUBSTANTIAL RIAL UPVALUATION CONTINUE, BUT IRAN IS RELUCTANT TO GO THAT ROUTE GIVEN THE DELETERIOUS EFFORTS IT WOULD HAVE ON THE COST COMPETITIVENESS OF IRAN'S DEVELOPING INDUSTRIAL SECTOR.

6. THERE IS NOT DOUBT THAT IRAN, LIKE OTHER OPEC COUNTRIES IS HURTING DUE TO THE DOLLAR'S DECLINE. ITS AMBITIOUS DEVELOPMENT PLANS ARE STILL, HOWEVER AFFECTED AS MUCH BY ABSORPTIVE FACTORS AS BY FINANCIAL CONSTRAINTS. BUT GIVEN THE STABILIZATION OF OIL EXPORTS (VOLUME) FOR THE LONGER-TERM, THE INCREASING FOCUS ON PRICE AND PURCHASING POWER IS INEVITABLE. CENTRAL BANK DATA SHOW THE FOLLOWING EFFECTIVE RIALS EXCHANGE RATE MOVEMENTS AGAINST 13 MAJOR CURRENCIES AS OF MARCH 8 USING ALL OF YEAR 2534 (MARCH 21, 1975 TO MARCH 20, 1976) AS BASE AND, SECONDLY, MARCH 21, 1977 AS BASE:

2534(100) MARCH 21, 1977

PERCENT CHANGE PERCENT CHANGE

ALL PAYMENTS MINUS5.37 MINUS 3.13

IMPORTS ONLY MINUS7.76 MINUS 9.73

(THE ABOVE DIFFERENCE IN EFFECT IS EXPLAINED BY THE GREATER DOLLAR REPRESENTATION ON SERVICES THAN ON IMPORTS.

7. THE DOLLAR IS VIEWED BY SHIRAZI AND HOMAYOUN AS UNDERVALUED BUT NEITHER ANTICIPATE ANY SUBSTANTIAL CHANGE IN THE CURRENT MARKET'S BASIS FOR EVALUATING IT, I.E. THE PSYCHOLOGY OF EVENTS--THE US ENERGY BILL, COAL STRIKE, PUBLIC UTTERANCES, ETC. GIVEN THAT, SHIRAZI SAID THE US WOULD DO WELL TO RECAST ITS BALANCE OF PAYMENTS REPORTS, WHICH EMPHASIZE THE MERCHANDISE BALANCE WHICH, HE BELIEVES, EVEN OMITTS FMS EXPORTS. WHILE THE RESOLUTION OF THE US COAL INDUSTRY CRISIS, ENACTMENT OF A GOOD ENERGY BILL AND ADOPTION OF ADDITIONAL OIL CONSERVATION POLICIES SHOULD HELP TO STABILIZE THE PRESENT DOLLAR RATES, SHIRAZI PREDICTS "ROUNDED NUMBER" DOLLAR RATES BY END 1978, E. G. 200 YEN AND 2 DM. HE IS SKEPTICAL THAT, SHORT OF THE LONG TERM EFFECTS OF A MEANINGFUL US ENERGY

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POLICY, THE US CAN ACHIEVE A NEW EQUILIBRIUM WITH ITS MAJOR TRADING PARTNERS SIMPLY BY EXCHANGE RATE ADJUSTMENT GIVEN THE MAGNITUDE OF THE US TRADE DEFICIT. HE IS CONCERNED OVER THE DISRUPTIVE EFFECTS OF EXCESSIVE FLUCTUATIONS IN EXCHANGE RATES. THE DIFFICULTY CAUSED TO TRADERS BY SUCH VOLATILITY IS NOT, HE MAINTAINS, THE EXCHANGE RISK--THAT CAN BE COVERED BY FOREARD TRANSACTIONS--BUT THAT LARGE RISES AND FALLS OF RATES MAY AT ONE STAGE KEEP OUT IMPORTS THAT ARE BASED ON COMPATIVE ADVANTAGE AND AT ANOTHER STAGE ENCOURAGE IMPORTS THAT HAVE NO ECONOMIC JUSTIFICATION.
MIKLOS

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